Exhibit No.:
Issues: Resource Planning
Witness: Lena M. Mantle
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2007-0004
Date Testimony Prepared: March 20, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

AQUILA, INC. D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P

CASE NO. ER-2007-0004

Jefferson City, Missouri
March 2007

****Denotes Highly Confidential Information****

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for authority to file tariffs increasing electric rates for the service provided to customers in the Aquila Networks-MPS and Aquila Networks-L&P service areas.	))))))	Case No. ER-2007-0004

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 13 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Lena M. Mantle
Lena M. Mantle

Subscribed and sworn to before me this 19th day of March, 2007.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

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LENA M. MANTLE

AQUILA, INC. D/B/A AQUILA NETWORKS-MPS
AND AQUILA NETWORKS-L&P

CASE NO. ER-2007-0004

Q. Please state your name and business address.

A. My name is Lena M. Mantle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Have you prefiled testimony in this case?

A. Yes. I prefiled direct testimony.

Executive Summary

Q. Please summarize your testimony.

A. In my testimony I respond to three Aquila witnesses: H. Davis Rooney, Dennis R. Williams and Robert L. Davis.

In his rebuttal testimony, Mr. Rooney disagrees with the capacity that Staff used in determining fuel expense and revenue requirement for Aquila Networks – MPS (MPS). In this testimony, I (1) explain why Public Service Commission Staff's (Staff's) preferred resource plan identified in my direct testimony in this case and in Aquila, Inc.'s (Aquila) previous rate case, Case No. ER-2005-0436, is still relevant; (2) state Staff's position that long-term firm Purchased Power Agreements should be included in the resource planning process; and (3) clarify Staff's position on the status of Aquila's South Harper Facility.

In his rebuttal testimony, Mr. Davis provides the results of analysis conducted by the firm that he works for, R.W. Beck, Inc. (R.W. Beck), regarding an "optimum" resource plan for Aquila. Regarding Mr. Davis' conclusions regarding the R.W. Beck study, Aquila witness Dennis R. Williams states in his rebuttal testimony that:

> His findings were sufficient for me to conclude that any perception of poor resource planning on the part of Aquila is unfounded, and that both prior and current resource planning and decision making processes are appropriate and effective. (pg. 5, ln. 4-6)

The R.W. Beck optimum plan, based only on the lowest cost to serve, should not be confused with a preferred resource plan. A good resource plan will take into account factors other than just the lowest cost plan. Mr. Davis concludes in his testimony that both Aquila's 2005 resource plan and its long-term plan are consistent with R.W. Beck's optimum plan. I do not agree.

Preferred Plan

Q. Briefly, what capacity did Staff include in its case?

A. Staff included all of Aquila's current capacity except for the three (3) South Harper combustion turbines (CTs). To ensure that there was enough capacity to meet the needs of Aquila's customers, Staff added five (5) 105 MW generic CTs.

Q. What capacity did Aquila include in its case?

A. I could not find it in Aquila's testimony, but Aquila's workpapers show that to estimate fuel and purchased power expense, Aquila modeled its current capacity, including the South Harper CTs plus three (3) additional 105 MW generic CTs.

Q. What was Aquila's preferred plan in 2004 for replacing the power it was getting from the Aries plant when Aquila's contract with Calpine expired in 2005?

A. Aquila's preferred plan was to build three combustion turbines (CTs) and to enter into long-term PPAs for another 200 MW.

Q. Did Aquila model its preferred plan in determining its fuel and purchased power expense?

A. No, it did not.

Q. What does Staff believe should have been Aquila's preferred plan?

A. As stated in my direct testimony in Aquila's last rate case (Case No. ER-2005-0436) and my direct testimony in this case, Staff believes that Aquila's preferred plan should have been its least cost plan, which was to build five 105 MW CTs.

Q. Did Staff propose to Aquila that it should install 525 MW at South Harper as stated by Aquila witness H. Davis Rooney (Rooney rebuttal pg. 8, ln.3-4)?

A Mr. Rooney may have misunderstood the statement in my direct testimony that "Staff modeled a site built of six (6) CTs, putting only five (5) on it." Staff did not specify where the five CTs should be placed. Resource planning does not pick a site on which a utility should build any more than Aquila's preferred plan proposed that three CTs should be built at South Harper. The resource planning process, given accurate cost estimates, simply states generically how the resource needs of a utility should be met. Once a preferred plan is chosen, then it is up to the utility to determine the specifics regarding the implementation of the plan.

Purchased Power Agreements

Q. Did Aquila fully implement its 2004 preferred plan?

A. No it did not. It did build three (3) CTs at South Harper and entered into a 75 MW long-term PPA for its MPS division. However, its preferred plan included 200 MW

of long-term PPAs. Aquila has not been able to acquire a contract for the remaining 125 MW that was included in its preferred plan for MPS. Instead, Aquila has met MPS' capacity needs through a series of short-term PPAs. This has put Aquila in the position of not knowing how its capacity needs will be met from year-to-year.

Q. Mr. Rooney states in his rebuttal testimony that "Staff continues to assert that an alternative plan in the pre-stipulation analysis of January 2004 should be the yard-stick of prudence for Aquila." (pg. 9, ln. 15-16) Is this a correct representation of Staff's position?

A. Staff does continue to assert that Aquila should have built five 105 MW CTs just as it did in the last Aquila electric rate case (Case No.ER-2005-0436). In my direct testimony in that case, I stated the following:

> A prudence review entails looking at the factors relevant to a decision as they were at the time the decision was made. Therefore, I must go back to the time when Aquila made the recommendation and consider the gas prices and gas price projections that existed at that point in time, not the current time and current gas prices. (pg. 7, ln. 5-8)

I still believe in that philosophy. To change now would result in Aquila's ratepayers not seeing the benefits of building the CTs. I have attached, as Schedule 1, a complete copy of my direct testimony in Case No. ER-2005-0436 which describes the Staff's rationale for choosing the five 105 MW CT resource plan as more prudent than Aquila's 2004 preferred resource plan.

Q. Did Staff include any PPAs in its analysis?

A. Yes. Mr. Rooney is correct in his rebuttal testimony when he states that Staff included in its analysis the 75 MW long-term PPA that Aquila entered into for base load power. (pg.10, ln. 10-12) Staff chose to include this PPA because it has been the position

of the Staff that Aquila needs more base load capacity and energy, and this long-term PPA met this need. In addition, Aquila needs this 75 MW PPA to meet its capacity and energy requirements.

Q. What would be the impact if Staff changed its position in this case?

A. Aquila has enjoyed the increase in rate base from these five (5) 105 MW CTs since the last case. For ratepayers to see the full benefits of these CTs, they need to remain in Aquila's rate base for the life of the plant. If Staff's position changes to Aquila's position, Aquila's ratepayers do not get the monetary benefits of the CTs but Aquila had the benefit of the CTs being in the rate base since the last rate case.

Q. In your direct testimony, you state that Staff's view is that Aquila should own its generation assets. (pg. 7, ln. 16-18). Does that mean that Staff is opposed to any PPAs?

A. No, Staff is not opposed to all PPAs. As required in the Commission's Chapter 22 Electric Utility Resource Planning (Chapter 22), Staff believes that the resource planning process should include a review of long-term PPAs, such as the 75 MW PPA that Aquila entered into. What Staff is opposed to is a series of short-term PPAs, which is how Aquila has met its growing needs since 2005. While short-term PPAs may be most cost effective for the ratepayer in the short run, they are not cost effective in the long run. Short-term PPAs expose both Aquila and its ratepayers to the volatility of the market, and expose both to a risk on an annual basis that Aquila may not have the capacity and energy that it needs to meet its load.

Aquila is proposing in this case (see Aquila witness Williams' direct testimony) what is referred to as a total pass through Fuel Adjustment Clause (FAC) that includes

purchased power. With that FAC Aquila would have very little risk if it meets its capacity needs with short-term PPAs, since the short-term PPAs would be included in the FAC. With Aquila's FAC, only its customers are assuming the risk of volatility, since the FAC would include the short-term PPAs.

Status of South Harper

Q. Has South Harper passed all established criteria for being considered in-service and used and useful as stated by Mr. Rooney in his rebuttal testimony (pg. 8, ln. 9-11)?

A. It has passed all engineering criteria. However, Staff determined that South Harper should not be declared in-service for ratemaking purposes. As stated in the direct testimony of Staff witness Leon Bender in Case No. ER-2005-0436:

> Q. Does having met the Staff's in-service criteria mean that the South Harper Station should be declared in service for rate making purposes?
> A. No, not at this time. The Staff's in-service criteria, as explained earlier, is set of criteria to establish that the plant is fully operational as far as the physical aspects of the plant is concerned. Although the South Harper Station meets the Staff's in-service criteria at the time of this filing, there remains a chance that due to pending litigation by other parties, that Aquila may have to remove the plant from service. Staff cannot make recommendation that the plant be in rate base until after the results of the legal proceedings are final. (pg. 8, ln. 14-22)

Since there still is pending litigation regarding South Harper, Staff still does not recommend that the plant be included in rate base for rate making purposes at this time.

Q. How does that reconcile with Mr. Rooney's quote from the ER-2005-0436 Non-unanimous Stipulation And Agreement (S&A) regarding Generating Facility Value?

A. Mr. Rooney quoted the following part of paragraph 6 of the S&A:

> ***Generating Facility Value***
> 6. The rates agreed to herein support a rate base value for a 315 MW generating facility of approximately $140 million for Aquila.

> This amount is subject to adjustment as a result of the true-up of Aquila's South Harper Generating Station.

Mr. Rooney interprets this section of the S&A to mean that the parties agreed that the South Harper Generating Station was placed in rate base. However, it actually states that a "315 MW generating facility," not the South Harper Generating Station, was placed into rate base.

Q. Does Mr. Rooney use any other parts of the S&A to support his assumption that South Harper was placed into rate base?

A. Yes he does. Mr. Rooney also quotes from paragraph 13 of the S&A as follows:

> ***South Harper and Prospective Generating Units***
>
> 13. The South Harper Generating Station commercial operation dates are as follows: Unit 1-July12, 2005; Unit 2-July 1, 2005 and Unit 3-June 30, 2005. For purposes of this case and future cases, test power, depreciation and allowance for funds used during construction will be calculated based on the commercial operation dates for South Harper Units 1, 2 and 3.
>
> The commercial operation date for prospective generating units will be the date the unit is first available for dispatch by the system operator. The actual commercial operation date for prospective generating units will be subject to review at the time the units are first sought to be included in rates. The actual commercial operation date for prospective generating units will be brought to the Commission for resolution in the event of an unresolved dispute.

Q. Isn't a plant in rate base when a commercial operation date is specified?

A. Not necessarily. As paragraph 13 of the S&A goes on to explain:

> The commercial operation date of a generating unit is not necessarily the date a unit meets the fully operational and used for service requirement of Section 393.135 RSMo (Proposition 1). The commercial operation date for a prospective generating unit can occur before the date a unit meets the fully operational and used for service requirement of Proposition 1. The commercial operation date for a prospective generating unit will be no later than the date the unit meets the fully operational and used for service requirement of Proposition 1.

The commercial operation date is set as the point in time that the plant ceases to be under construction (i.e., Allowable Funds Used During Construction is no longer calculated) and the plant begins to depreciate in value. A comparable example would be the point in time that you drive a new car off of the car lot. When you drive it off of the lot, it starts depreciating in value. For a generating plant, depreciation begins at the commercial operation date.

Q. Why is it important to differentiate the difference between a commercial operation date and the date that a plant is considered fully operational and used for service (i.e., in-service)?

A. Missouri statute, passed by voter initiative, states that a plant can only be placed into rate base when it is determined to be fully operational and used for service. Specifically the statute, Section 393.135, RSMo. 2000, reads:

> Any charge made or demanded by an electrical corporation for service, or in connection therewith, which is based on the costs of construction in progress upon any existing or new facility of the electrical corporation, or any other cost associated with owning, operating, maintaining, or financing any property before it is fully operational and used for service, is unjust and unreasonable, and is prohibited.

The commercial operation date is important when the plant is not immediately placed into rate base (*i.e.*, it is operational before it is fully used for service). It is the date that determines when the plant begins depreciating so that the correct value can be placed in rate base when the date the plant is fully useful (i.e., in service) is established.

Q. Does either one of the above quotes from the S&A from Case No. ER-2005-0436 state that the parties agree that South Harper is in rate base?

A. No they do not.

Q. Did the Commission include South Harper in rate base in the last case?

A. No. The Commission specifically stated in its Report and Order in Case No. ER-2005-0436:

> … it does not authorize Aquila to recover those costs in this case, and **it does not place the South Harper Generating Station into the company's rate base**. It also does not authorize Aquila to recover any costs associated with dismantling that facility, if that becomes necessary. (Commission Order Case ER-2005-0436, page 4; emphasis added)

"Optimal" vs. "Preferred" Resource Plan

Q. Have you reviewed the rebuttal testimony of Aquila witness Robert L. Davis?

A. Yes I have. Mr. Davis conducted a reasonableness check on Aquila's 2005 Resource Plan by developing what Mr. Davis calls an "Optimal" Plan. The Optimal Plan was the result of analysis conducted by Mr. Davis' firm, R. W. Beck, to determine a generation portfolio that would result in the lowest total incremental revenue requirements in each modeled year. (Davis rebuttal, Schedule RLD-2, page 4 of 16) Then R.W. Beck performed analyses to compare Aquila's existing mix of capacity to the optimal plan and to compare the modeled optimum expansion plan to planned resource additions identified in Aquila's 2005 Integrated Resource Plan. (Davis rebuttal, Schedule RLD-2, page 2 of 16)

Q. What is your opinion of the analysis presented in Mr. Davis' testimony?

A. It is an interesting analysis. In many ways it supports what Staff has been telling Aquila regarding resource planning the last several years: "A well-balanced, least cost power supply portfolio properly blends high fixed cost, low variable cost, base-load assets with lower fixed cost intermediate and peaking assets (which typically depend on

higher-cost, more volatile priced fuels) to derive the lowest total power supply cost for the utility and its customers." (Davis rebuttal, pg. 3, ln. 14-17).

However, R.W. Beck's analysis needs to be taken for what it is—a sanity check of Aquila's current resource mix. While Mr. Davis did not represent that R.W. Beck's analysis results should be considered as a preferred resource plan, I would like to summarize the difference between Mr. Davis' optimal plan and a preferred plan.

Q. Should the preferred plan be an optimal plan?

A. Yes. When Mr. Davis refers to a "theoretically optimum power supply mix" in his rebuttal testimony (pg. 7, ln. 7), he is referring to a power supply mix that meets Aquila's needs at the lowest cost mixture of the resources that were put into the model. (pg. 7, ln. 14-15). While low cost is important in choosing a preferred plan, other objectives need to be considered.

Q. What type of objectives?

A. Chapter 22 lists three (3) other considerations that, at a minimum, should be considered in choosing a preferred plan.

> These considerations shall include, but are not necessarily limited to, mitigation of-
>
> 1. Risks associated with critical uncertain factors that will affect the actual costs associated with alternative resource plans;
> 2. Risks associated with new or more stringent environmental laws or regulations that may be imposed at some point within the planning horizon; and
> 3. Rate increases associated with alternative resource plans.
>
> (4 CSR 240-22-010(2)(C)1.-3.)

The first consideration would include looking at alternative plans in light of, at a minimum, changes in the load forecast, fuel costs and changes in the cost to build generation. The second consideration includes looking at the various alternative plans in

light of possible changes in environmental legislation. The third consideration asks the utility to look at the various levels of rate increases in different alternative plans. The preferred plan should be a robust plan that weighs at least these considerations and balances all considerations.

Q. Would you provide an example of how these considerations could apply to different plans?

A. Installing three (3) CTs and meeting the rest of a utility's needs with short-term PPAs may minimize rate increases in the short-run, but this resource mix exposes the utility and its customers to the risk of the short-term capacity market. Installing five (5) CTs to meet capacity requirements increases rates in the short run but results in stability in the availability of capacity. In the case of Aquila's 2004 resource analysis, the five (5) CTs both provided capacity in the long-term and resulted in the lowest cost.

Q. What was the result of R.W. Beck's analysis?

A. Mr. Davis concludes that "both the current and planned power supply resources of the Electric Systems reasonably align with a theoretically optimum power supply mix." (Davis rebuttal, pg. 6, ln. 4-6)

Q. Do you agree with Mr. Davis?

A. Not entirely. I am not aware of anything improper in R.W. Beck's analysis. Mr. Davis state the following with regard to Aquila's power supply mix in 2005:

> The analysis shows that if Aquila had perfect foresight and could have installed all new resources to satisfy its entire supply portfolio in 2005 that more base-load and intermediate capacity and less peaking capacity would be desired as compared to the existing supply portfolio. (Davis rebuttal, pg. 6, ln. 15-18)

This is consistent with what Staff was telling Aquila at the time.

However, I do not agree with the following conclusion of Mr. Davis:

> The relatively small difference between the existing and hypothetical 2005 power supply portfolios indicate that the Aquila portfolio that existed is highly consistent with a theoretically optimum power supply mix. (Davis rebuttal, pg. 7, ln. 5-7)

Q. Why not?

A. My understanding is that Mr. Davis draws this conclusion because capacity can be added to a power supply portfolio in discrete increments. (Davis rebuttal, pg. 6, ln. 18 – pg. 7, ln. 7) In other words, the plans were consistent because capacity can only be purchased in "chunks." It is correct that it would be highly unlikely that Aquila would have the exact increments necessary to be consistent with the lowest cost plan, but, again, Mr. Davis is considering only the lowest cost to serve Aquila. He did not consider that if Aquila had a larger amount of base or intermediate capacity than his optimum plan, Aquila would have had more fuel price stability and any excess low-cost energy could have sold on the energy market to off-set the increased fixed costs. Therefore, while Mr. Davis may consider the plans to be consistent, I consider them inconsistent with a preferred plan that minimizes price volatility and rates in the long run.

Q. What was Mr. Davis' conclusion about Aquila's long-term resource plan?

A. Mr. Davis considered his optimum plan to be consistent with Aquila's 2005 preferred resource plan in the time period 2010 through 2015.

Q. Do you agree?

A. No, I do not believe that Mr. Davis' long-term optimum plan is consistent with Aquila's 2005 preferred plan. Schedule 2 shows a plot of the resource additions in Aquila's 2005 preferred resource plan and another that shows the R.W. Beck optimum plan. There are several differences in the two plans. Perhaps the most obvious is the

proportion of additional base load plants to the capacity need that Aquila would get from the market. Aquila's plan shows 150 MW of base additions in 2010 (Aquila's portion of Iatan 2) and an additional 150 to be added in 2014 for a total of 300 MW of base load addition. R.W. Beck's plan starts with 200 MW of base load additions in 2010 and increases to 600 MW in 2015. I do not believe these two plans are "consistent." Aquila has not shown Staff a plan that would add this level of base capacity to its system in 2015.

Q. Do you disagree with the R.W. Beck's analysis?

A. No, I do not disagree with the analysis. It is an interesting exercise to check the reasonableness of Aquila's resource plan. However, I disagree with the conclusions by Mr. Davis that of R.W. Beck's optimal plan and Aquila's preferred resource plan are consistent.

Q. Do you also disagree with Mr. Williams' conclusion that Mr. Davis' "findings were sufficient for me to conclude that any perception of poor resource planning on the part of Aquila is unfounded" (Williams rebuttal, pg. 5, ln. 4-5)?

A. Yes I disagree with Mr. Williams' conclusion. Mr. Davis was very careful in his testimony to state that the R.W. Beck plans were optimal in the aspect of lowest cost. Mr. Davis did not say that the study showed that Aquila had done a good job of resource planning.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Exhibit No.:
Issues: Resource Planning

Witness: Lena M. Mantle
Sponsoring Party: MO PSC Staff
Type of Exhibit: Direct Testimony
Case No.: ER-2005-0436
Date Testimony Prepared: October 14, 2005

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

LENA M. MANTLE

AQUILA, INC.
D/B/A AQUILA NETWORKS – MPS
And AQUILA NETWOIRKS – L&P

CASE NO. ER-2005-0436

Jefferson City, Missouri
October 2005

****Denotes Highly Confidential Information****

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Schedule 1-1

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for Authority to File Increasing Electric Rates For the Service Provided to Customers in the Aquila Networks-MPS and Aquila Networks-L&P Area.	)	Case No. ER-2005-0436

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 7 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Lena M. Mantle

Subscribed and sworn to before me this 13th day of October, 2005.

ROSEMARIE RIEDL
MY COMMISSION EXPIRES
June 1, 2009
NOTARY SEAL
COLE COUNTY
NOTARY PUBLIC STATE OF MISSOURI

Notary Public

My commission expires June 1, 2009

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Schedule 1-3

DIRECT TESTIMONY

OF

LENA M. MANTLE

AQUILA, INC.
D/B/A AQUILA NETWORKS – MPS
AND AQUILA NETWORKS – L&P

CASE NO. ER-2005-0436

Q. Please state your name and business address.

A. My name is Lena M. Mantle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present position with the Missouri Public Service Commission (Commission)?

A. I am the Manager of the Energy Department, Utility Operations Division.

Q. Would you please review your educational background and work experience?

A. I received a Bachelor of Science Degree in Industrial Engineering from the University of Missouri, at Columbia, in May 1983. I joined the Commission Staff (Staff) in August 1983. I became the Supervisor of the Engineering Section of the Energy Department in August, 2001. In July 2005, I was named the Manager of the Energy Department. I am a registered Professional Engineer in the State of Missouri.

My work here at the Commission has included the review of resource plans of investor owned electric utilities since 1984. I was actively involved in the writing of the Commission's Chapter 22, Electric Resource Planning rules. I participated in the review

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Schedule 1-4

of all of the utility filings under that rule. Since the Commission issued a waiver to the electric utilities from filing under that rule in 1999, I have been present at all but one of the utilities' semi-annual resource plan update meetings with Staff and Office of Public Counsel.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have. Please see Schedule 1 attached to this testimony for a list of cases in which I have previously filed testimony.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to provide to the Commission a summary of the resource planning review process and the feedback that the Staff has supplied Aquila in the last three years. I am also presenting Staff's position regarding how Aquila should have replaced the power it was receiving from the Aries capacity contract.

Executive Summary

Q. Would you please summarize your testimony?

A. It is my testimony that, given the information from the resource planning process that was available at the time Aquila made its decision regarding the replacement of power it was obtaining through the Aries capacity contract, it is the position of the Staff that Aquila should have built five combustion turbines (CTs). Therefore, the Staff included five CTs to satisfy Aquila's capacity needs in this rate case to approximate a self-build option for Aquila Networks – MPS (MPS). Staff witness David W. Elliott is using five generic CTs in addition to MPS's current capacity in rate base in the production cost model to estimate variable fuel and purchase power costs and Staff witness Robert Schallenberg is sponsoring adjustments to the capacity costs to this effect.

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Testimony

Q. What capacity does Aquila currently have instead of the five generic CTs in Staff's case?

A. Aquila has included the three combustion turbines at the South Harper site. Due to legal issues, it is not clear that these CTs will remain at this site. Aquila is currently searching for purchase power contracts, long or short-term, to fulfill the rest of its capacity and energy needs.

Q. What was the resource planning review process when Aquila made its decision to build the only three CTs and rely on purchase power contracts for the rest of its capacity and energy needs?

A. At the time, Aquila was meeting with the Staff and Office of Public Counsel twice a year to update us on its resource needs. The only information given to Staff at these meetings was the presentation material. Staff would provide feedback based on the presentation materials and statements made during the presentations. The Staff did not do a formal or informal review of the resource plan updates presented at the meetings. Sometimes, if the Staff felt that it was warranted, it would respond after the meeting with a letter expressing concerns.

This process is changing as the waiver is ending in December of this year. Aquila submitted a resource plan to Staff in April 2005 and is scheduled to file its resource plan in February 2007. It has made a verbal commitment to Staff to continue the semi-annual meetings until that time.

Q. Why does Aquila need capacity?

A. Aquila needs capacity to replace the purchase power agreement (PPA) that it had for the Aries power plant to supply up to 500 megawatts (MW) of capacity in the summer and 320 MW of capacity in the winter. This PPA expired May 31, 2005. MPS satisfied this deficit in 2005 with the three CTs at South Harper and a short-term capacity purchase of 325 MW from a facility owned by another Aquila division in Mississippi called Crossroads. This agreement has also already expired.

In addition to the need to replace power it was obtaining through the Aries PPA, Aquila also needs capacity to meet growth in its customers' electrical needs.

Q. What process did Aquila use to determine how to replace the Aries PPA capacity and energy?

A. Aquila issued a Request for Proposals (RFP) in 2001 to get bids for capacity to replace the Aries contract. While it was analyzing the bids the market changed drastically. After discussions with the Staff, Aquila reissued the RFP in 2003. Reissuing the RFP reduced the time available to Aquila to pursue different options but, given the market changes, both Aquila and Staff felt that doing so was appropriate to get the most reliable and least cost power for Aquila's customers.

A. What was the result of the analysis of this RFP?

Q. The first time Staff was shown any results from this RFP was in the Aquila semi-annual resource plan meeting with Staff on June 26, 2003. Aquila told us that an "undisclosed" bidder had offered it an excellent bid for 600 MW but it could not tell us much about the bid at that time. Because this would be more than enough to cover its needs, Aquila felt that no other capacity was needed. Staff later learned from Aquila that this bid fell through.

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On January 27, 2004, Aquila again met with Staff, this time not in a resource planning meeting, but in a meeting to let Staff know about its power supply acquisition process for the next five years. In this meeting, Aquila's preferred/proposed resource plan over the short term was to build three combustion turbines and to enter into three-to-five year PPAs based off of the bids to the 2003 RFP.

Q. How did Staff respond to this?

A. Three days later on January 30, 2004, Staff responded with a letter to Mr. Dennis Williams of Aquila, expressing concern regarding Aquila's short-sightedness (three-to-five year plan), the Staff's belief that Aquila needed to be looking at base-load generation and the Staff's concern that Aquila should not become overly dependent upon PPAs.

Q. When did Aquila disclose its long range plan to Staff after it received the Staff's letter?

A. Aquila met with Staff on February 9, 2004, for its semi-annual resource update. This update, which took into consideration events over a twenty year time horizon, showed that ** _____
_____
_____
_____
_____
_____ **

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Schedule 1-8

At the next semi-annual update on July 9, 2004, Aquila still showed that the ** _____ ____** Aquila had found a very good 75 MW PPA with Nebraska Public Power District (NPPD), but it was still pursuing the other PPAs upon which it had received bids.

At subsequent resource planning update meetings Aquila has provided updates on the ** _____ _____ **

Q. Does the Staff believe that Aquila should have chosen five CTs as its preferred plan because it is the least cost alternative?

A. No, it does not. While cost should be a primary decision criterion, it should not be the only criteria that a utility should look at when choosing its preferred plan. While the electric utilities currently have a waiver from the Commission's resource planning rules in Chapter 22, the Staff still believes that the utilities should carefully do risk and contingency analysis of their resource plans and choose a resource plan that is robust across many scenarios involving possible future events. The Staff believes that prudently building and owning generation, whether it is baseload, intermediate or peaking, provides stability for Missouri consumers. PPAs are useful tools, but in the current environment they should not be relied upon as long-term solutions to capacity needs in the planning process without a firm long-term contract in hand. ** _____ _____ _____ _____ _____

Schedule 1-9 NP

_____** Instead of relying on short-term PPAs, Aquila could have had five CTs built by 2005 and available to serve its customers for the next thirty years.

Q. In light of current natural gas prices, are you concerned about recommending Aquila install more gas-fired generation capacity?

A. A prudence review entails looking at the factors relevant to a decision as they were at the time the decision was made. Therefore, I must go back to the time when Aquila made the recommendation and consider the gas prices and gas price projections that existed at that point in time, not the current time and current gas prices. Given the gas prices in 2003 and the information that Aquila has supplied the Staff, the appropriate decision would have been to build five CTs or the equivalent of 500 MW of capacity. To answer this question with today's gas prices and purchase power market, a new MIDAS model analysis would have to be run. Staff does not have the capability to run a MIDAS analysis independent of the utility.

Q. Does this conclude your direct testimony?

A. Yes, it does.

PREVIOUS TESTIMONY OF
LENA M. MANTLE

CASE NUMBER	TYPE OF TESTIMONY	ISSUES
ER-84-105	Direct	Demand-Side Update
ER-85-20	Direct	Demand-Side Update
ER-85-128, et. al	Direct	PURPA Standards
EC-87-114, et. al.	Surrebuttal	Annualization & Normalization of Sales
EO-90-101	Direct, Rebuttal, and Surrebuttal	Weather Normalization of Sales Normalization of Net System
ER-90-138	Direct	Normalization of Net System
EO-90-251	Rebuttal	Promotional Practice Variance
EO-91-74, et. al.	Direct	Weather Normalization of Class Sales Normalization of Net System
ER-93-37	Direct	Weather Normalization of Class Loads Normalization of Net System
ER-94-163	Direct	Normalization of Net System
ER-94-174	Direct	Weather Normalization of Class Sales Normalization Net System
EO-94-199	Direct	Weather Normalization of Sales
ET-95-209	Rebuttal and Surrebuttal	New Construction Pilot
ER-95-279	Direct	Normalization of Net System
ER-97-81	Direct	Weather Normalization of Class Hourly Loads, TES Tariff, Normalization of Net System

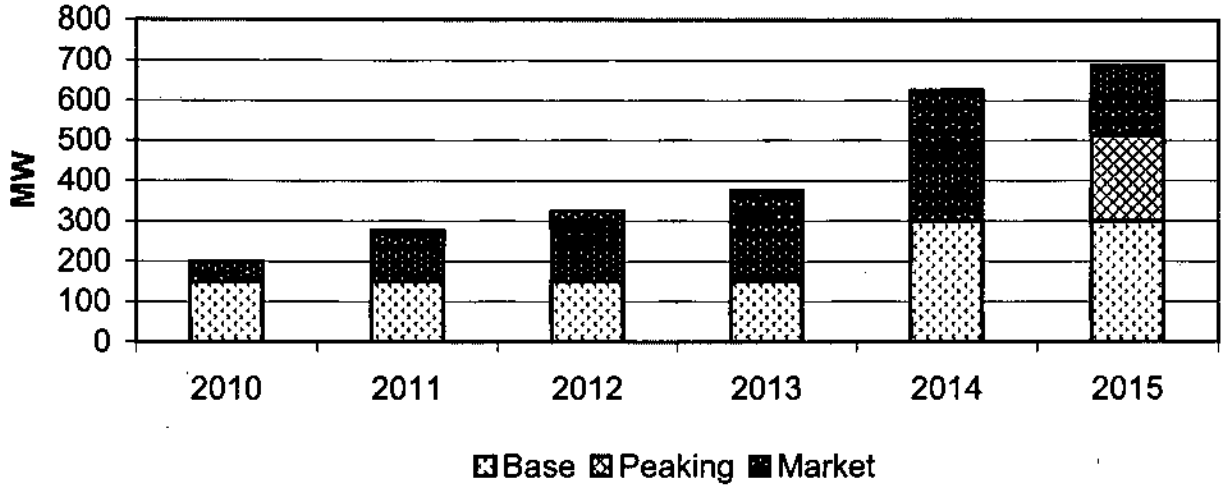
NP

PREVIOUS TESTIMONY
OF LENA M. MANTLE (cont.)

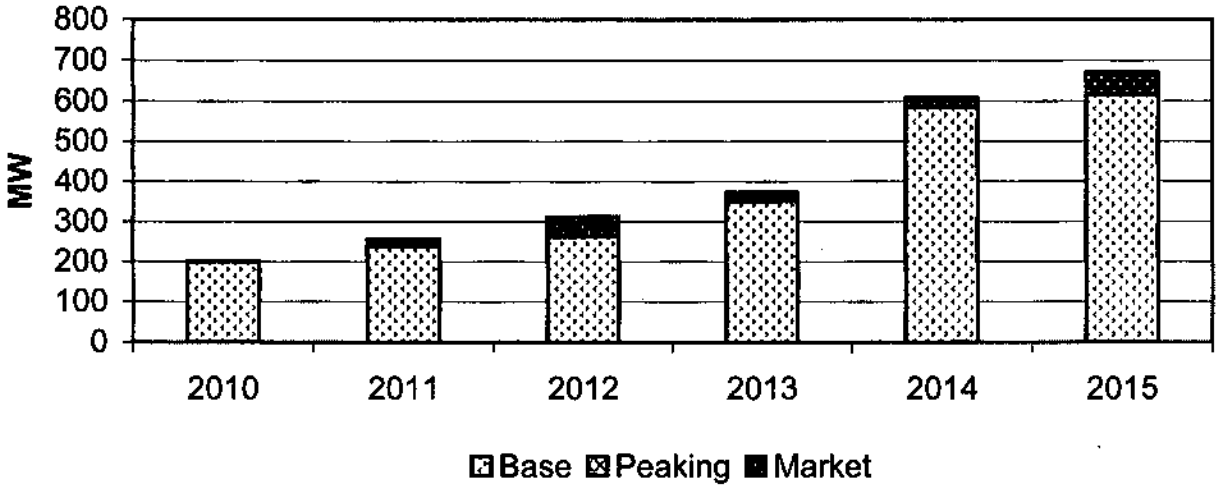
CASE NUMBER	TYPE OF TESTIMONY	ISSUES
EO-97-144	Direct	Weather Normalization of Class Loads Normalization of Net System
ER-97-394, et. al.	Direct, Rebuttal and Surrebuttal	Weather Normalization of Class Loads Normalization of Net System Energy Audit Tariff
EM-97-575	Direct	Normalization of Net System
EM-2000-292	Direct	Normalization of Net System Load Research
ER-2001-299	Direct	Weather Normalization of Class Loads Normalization of Net System
EM-2000-369	Direct	Load Research
ER-2002-1	Direct	Weather Normalization of Class Loads Normalization of Net System
ER-2001-672	Direct and Rebuttal	Weather Normalization of Class Loads Normalization of Net System
EC-2002-1	Direct Rebuttal	Weather Normalization of Class Loads Normalization of Net System
ER-2002-424	Direct	Calculation of Normal Weather
EF-2003-0465	Rebuttal	Resource Plans

NP

Aquila's 2005 Plan



R.W. Beck "Optimal" Plan



Schedule 2